WHAT'S IN YOUR **PORTFOLIO?**

The Scenario

Tom Durban is a young professional in his early 20's. Tom has been working at his first real job for a little over a year. He has been saving as much money in his 401(k) as allowed. The bulk of his 401(k) is in company stock.

Tom lives in an apartment and would like to purchase a house in the near future. He currently doesn't have any money saved for a down payment.

He has one credit card at 17% interest with a significant balance, but only pays the minimum each month. He hasn't purchased anything on the credit card for quite some time.

Analysis

It's great that Tom is really socking away the money in his 401(k). Investing now for his retirement will give those funds many years of tax-deferred growth. However, there are some details in his financial picture that could prevent him from attaining both his short-term and long-term goals.

Suggestions that could put Tom in a better financial position:

1. **Diversify his 401(k) investments.** With the bulk of his portfolio in company stock, it's too easy to lose it all should something catastrophic happen to his company. There are plenty of companies out there that sold at one time for $100+ per share that now sell for less than $0.05 per share.

    - To minimize risk, money in a 401(k) should be spread around between several of the different available options. A little company stock is fine, but it should be less than 5% of the portfolio.

2. **Save for a house.** Tom could consider putting a little less into his 401(k) and putting the extra money into either a money market account or bonds until he has enough for the down payment. It’s not advisable to take a loan out of your 401(k) if it can be avoided.

3. **Address his credit card balance ASAP.** Even though Tom hasn't been charging any more on his credit card, it will still take a good 30 years to pay it off if he continues making only the minimum payments.

    - Depending on how large his debt payments are compared to his income, it might come into play negatively when he tries to qualify for a mortgage.

    - Once Tom pays off the credit card, he could also put the money he was using for this debt payment toward his down payment on his house.

    - Plus, paying off that credit card balance is akin to making 17% on his money.

Congratulations to Tom for saving money aggressively and consistently! Simply re-allocating some of his resources with these suggestions can set him up nicely for attaining his goals.